

HONEYCOMB INVESTMENT TRUST PLC

31 July 2020

INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company") delivered a NAV return of 0.61% for the month, which is equivalent to 7.2% per annum.

The NAV return continues to improve month on month with provision charges reducing as many customers end their forbearance plans and return to full payments across all sectors.

Portfolio Composition

During August, the company disposed of £44.6 million of consumer unsecured whole loans to Tandem Bank. This disposal is in line with the Company's strategy of focusing on secured credit assets with first loss protection from the borrower. This disposal reduced the Company's exposure to unsecured consumer whole loans to less than 9% of investment assets (June 2020: 16%). Tandem Bank also acquired Allium Lending Group ("ALG") in the period and the Company sold its equity stake and structured loan in ALG in exchange for equity in the Bank.

The portfolio continues to perform well with the majority of underlying customer loans (both owned directly and financed through structured facilities) now out of COVID forbearance. We are also seeing non-bank lenders tentatively re-enter the lending market with restricted scorecards as the economy has started to re-open.

Investment Assets and Leverage

Net investment assets reduced from a peak of £595m in February 2020 to £537m at the end of July. Cash collections have remained strong, driven by the structural benefits of the strategy and prudently managing the Credit Asset portfolio. The Company's outstanding debt has reduced from £222.5m to £187.4m in the same period. The debt to equity ratio decreased from 58.2% to 50.2% over the same period.

Share Buy Backs

The Company has continued its share buyback program in August with the aim of reducing the discount between the NAV and share price. In August this has seen the Board buy back 444,842 shares representing 1.1% of the total share capital bring the total buybacks year to date to 3,379,842 or 8.6% of the total share capital. The Board is committed to continuing this buyback program until the share price is less than a 5% discount to NAV. The share price has increased from 763p at 31 July to 820p at 28 August.

Key Details

Monthly NAV Return (Annualised)	7.2%
Monthly NAV Return	0.61%
YTD NAV Return	4.70%
ITD* NAV Return	38.03%
NAV Cum. Income	£373.4m
NAV Ex. Income	£369.8m
Market Capitalisation	£278.4m
Net Investment Assets	£537.0m
Debt to Equity	50.2%
Shares in Issue	36,514,919
Share Price	762.5p
NAV Cum. Income per Share	1,022.5p
NAV Ex. Income per Share	1,012.7p
Premium (Discount) to NAV Cum Income	(25.4)%

*ITD: Inception to Date – excludes IPO Issue Costs

Performance Dividend History

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD*
NAV Return IAS 39 2016	0.04%	0.13%	0.19%	0.92%	0.60%	0.79%	0.68%	0.70%	0.88%	0.89%	0.92%	0.94%	7.85%	7.83%
NAV Return IAS 39 2017	0.69%	0.69%	0.78%	0.62%	180% ⁽¹⁾	0.55%	0.65%	0.62%	0.63%	0.61%	0.61%	0.79%	9.11%	17.24%
NAV Return IFRS 9 2018	0.66%	0.59%	0.72%	136% ⁽³⁾	0.56%	0.60%	0.63%	0.67%	0.67%	0.67%	0.65%	0.60%	8.43%	25.12% ⁽²⁾
NAV Return IFRS 9 2019	0.58%	0.54%	0.67%	0.67%	0.64%	0.65%	0.67%	0.66%	0.66%	0.67%	0.67%	0.67%	7.79%	33.17% ⁽²⁾
NAV Return IFRS 9 2020	0.60%	0.60%	0.25%	0.42%	0.42%	0.75%	0.61%						4.70%	38.03% ⁽²⁾
Share Price Performance**	2016	150%	-	-	-	-	-	-	-	-	-	0.54%	2.05%	2.05%
Share Price Performance**	2017	3.92%	3.72%	0.45%	181%	(0.89%)	4.93%	2.78%	0.42%	(124%)	(0.84%)	(149%)	13.42%	15.75%
Share Price Performance**	2018	(194%)	-	-	(176%)	-	-	0.90%	-	0.89%	(0.44%)	-	(2.38%)	13.00%
Share Price Performance**	2019	-	-	-	-	(133%)	(0.45%)	-	(0.45%)	(6.33%)	(3.86%)	(151%)	(13.94%)	(2.75%)
Share Price Performance**	2020	(2.13%)	(2.13%)	(18.48%)	(133%)	-	169%	133%					(21.59%)	(23.75%)
Dividend Per Share (Pence)***	2016	-	-	-	-	2.11	-	-	19.66	-	23.13	-	44.90	44.90
Dividend Per Share (Pence)***	2017	-	-	23.5	-	24.50****	-	-	20.00	-	-	20.00	88.00	132.90
Dividend Per Share (Pence)***	2018	-	-	20.00	20.00	-	-	-	20.00	-	-	20.00	80.00	212.90
Dividend Per Share (Pence)***	2019	-	-	20.00	-	-	20.00	-	20.00	-	-	20.00	80.00	292.90
Dividend Per Share (Pence)***	2020	-	20.00	-	-	-	20.00	-					40.00	332.90

* ITD: Inception to Date – excludes IPO Issue Costs
 ** Based on IPO Issue Price of 1000p
 *** Recognised in the month when marked ex-dividend
 **** Based upon the number of shares at the ex-dividend date

⁽¹⁾ NAV return excluding effect of capital raise and issuance at a premium would have been 0.77%
⁽²⁾ Inception to date NAV return affected by IFRS 9 initial recognition on 2018 brought forward retained earnings
⁽³⁾ NAV return excluding effect of capital raise and issuance at a premium would have been 0.63%
⁽⁴⁾ NAV return excluding effect of buy backs would have been 0.66%

Background and Investment Objective

Honeycomb Investment Trust plc (the “Company”) is a specialist lending fund whose investment objective is to provide shareholders with an attractive level of dividend income and capital growth through the acquisition of interests in loans made to consumers and small business as well as other counterparties.

The Company may also make selected equity investments that align with the Company’s strategy, and that present opportunities to enhance the Company’s returns from its investments.

The Company believes that consumer, property and SME loans are asset classes that have the potential to provide attractive returns for investors on a risk-adjusted basis. Changes in the focus of mainstream lenders together with the implementation of new models that utilise data, analytics and technology more effectively, provide an opportunity to deliver better products to borrowers while generating attractive returns for the Company.

The Company and the Investment Manager seek to acquire credit assets which meet the specified underwriting criteria through two routes; (1) providing structured loans to specialist lenders; and (2) acquiring portfolios of whole loans.

Investment Features

- Investment team has a combined 100+ years credit underwriting and consumer lending experience.
- Highly granular and well diversified portfolio.
- Majority of portfolio benefiting from downside protection or seasoning.
- 8% targeted dividend on issue price when fully invested and leverage applied, payable quarterly.
- UK Investment Trust tax treatment.

Fund Facts

Type of Fund	Closed – Ended Fund
Listing	Specialist Fund Segment of the London Stock Exchange
Ticker	HONY
ISIN	GB00BYZV3G25
Inception Date	23 December 2015
Dividend	Quarterly
NAV Calculation	As of last day, of each month
Management Fee	1%
Performance Fee*	10%

*subject to 5% preferred return hurdle and high watermark

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Glossary

NAV (Cum Income) is the value of investments, other assets and cash, including current year revenue, less liabilities.

NAV (Ex Income) is the value of investments, other assets and cash, excluding current year revenue, less liabilities

NAV Return is calculated as NAV Cum. Income at the end of the period, plus dividends declared during the period, divided by NAV Cum. Income at the start of the period, calculated on a per share basis.

Share Price closing mid-market share price at month end (excluding dividends reinvested).

Premium / (Discount) the amount by which the price per share is either higher (at a premium) or lower (at a discount) than the NAV Cum. Income, expressed as a percentage of the NAV Cum. Income per share.

Net Assets total assets minus any liabilities.

Market Capitalisation the closing mid-market share price multiplied by the number of shares outstanding at month end.

Debt to Equity the value of total leverage including any accrued interest and fees divided by the NAV

Annualisation Methodology Monthly returns have been calculated by multiplying the actual number of days in the year divided by the actual number of days in the month.